

Chapter 1

Context for labour migration

Employment levels in Germany are high in comparison to other countries, reflecting a currently favourable labour market and recent success in increasing participation of older workers, women and immigrants, although this varies across German states. The apprenticeship system plays a fundamental role in the labour force. Germany is also one of the fastest ageing countries in the OECD, with the working-age population starting to decline sharply. Labour shortages are visible in rising numbers of vacancies, including apprenticeships in some key trades. Shortages vary by occupation, with the health sector apparently the most affected. Shortages are reported in high- and medium-skilled occupations and expected to increase across both. In this context, labour migration is seen as one element in a broader strategy to address skills shortages.

Current labour market conditions

Labour market conditions in Germany are currently rather favourable in international comparison. Germany has a relatively high proportion of its working-age population (15-64 years old) in employment; at 72.5% in 2011, the employment rate was well above the OECD average of 64.8%. In particular, in recent years the employment rate has increased strongly, by 6.9 percentage points since 2000. Women and immigrants have particularly benefited from this improvement although there is still margin for improvement, for example with respect to moving from part-time to full-time employment.¹ The group, however, for which the improvement has been strongest in recent years, has been the elderly. For the age group 55-64, the employment rate is now almost 60%, an increase of more than 22 percentage points since 2000 and the largest increase in the OECD. At the time of writing, the German harmonised unemployment rate was 5.5% (Q2 2012), its lowest level in a decade. This stands in contrast to the overall OECD trend which saw a crisis-related increase in unemployment and a decline in employment rates.

At the same time, however, there are large and persistent regional differences in labour market performance. Whereas unemployment in the South (Bavaria and Baden-Württemberg) was below 4% in mid-2012, the unemployment rate in the eastern part of Germany was above 10%.

A further particularity of the German labour market is the important role played by apprenticeships, which are pursued by almost half of all students in upper secondary education. As a result of the strong role of apprenticeships, almost 60% of the working-age population have medium-level qualifications. Among the current immigrant population, on the other hand, there is a relatively large share of low-educated, with 14% having at most primary education and a further 24% lower secondary education.²

The German labour market also places a strong emphasis on formal qualifications, as witnessed by a larger increase in both employment rates and earnings along with qualification levels than in most other OECD countries (OECD, 2012a). At the same time, however, foreign qualifications, in particular from non-OECD countries, appear to face a stronger discount in the German labour market than elsewhere in the OECD (OECD, 2012b).

Demographic context

The population in Germany is one of the fastest-aging and fastest-shrinking among OECD countries. Germany's population has been

declining since 2004 – although 2011 saw a slight migration-related uptick. Among OECD countries, only Hungary has seen a longer span in which its population has been declining. In 2010, 26% of the German population was over 65 years of age compared with 23% in other Western European countries, 19% in the Central European countries, and 17% in the United States. The share of youth aged 0-14 was just 14% compared with 17% in other Western European countries and 21% in the United States.

Labour force growth, which was positive over the past decade, is projected to turn negative over the current decade 2010-20 (Table 1.1). Germany faces a 4% decline in its labour force, while the change in Europe (on average) and in the United States is projected to remain positive. Part of this decline is due to much lower levels of immigration in Germany, based on the figures for the past few years.

Table 1.1. **Estimated changes in the labour force 2010-20 and comparison with 2000-10**

Percentage

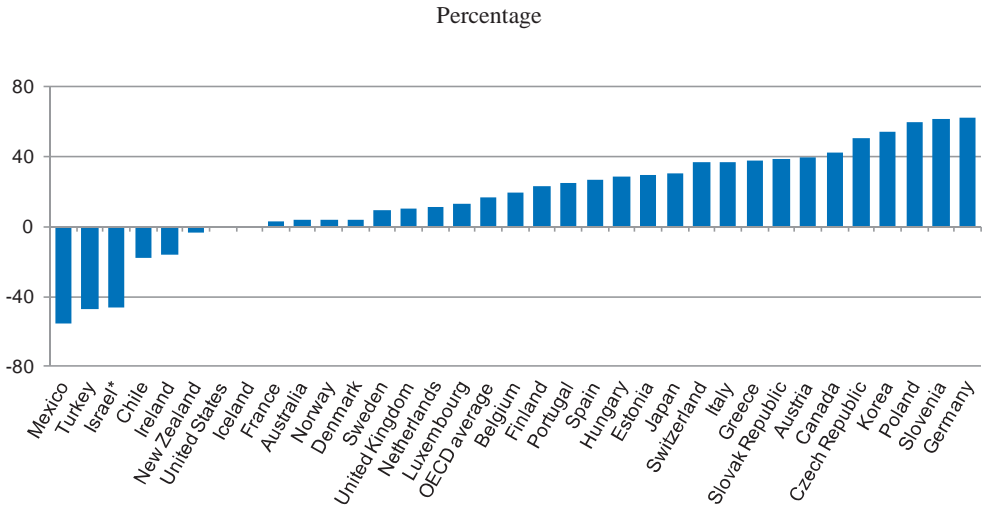
		Total growth of the labour force	Young workers (new entrants)	New immigrants	Prime-age workers	Older workers (retirees)	Net turnover	Replacement surplus (entrants of younger + retirement of older)
		(A+B+C+D)	(A)	(B)	(C)	(D)		(A+D)
Germany	2000-2010	5	27	3	-2	-23	27	3
	2010-2020	-4	18	1	1	-24	22	-6
European average	2000-2010	10	23	6	-1	-18	25	4
	2010-2020	2	21	3	0	-22	24	-1
United States	2000-2010	13	20	6	-1	-13	20	7
	2010-2020	6	21	4	0	-20	23	1

Note: The contribution of each group is the net change in the labour force for the group divided by the total number of persons in the labour force in 2000. The net turnover is half the sum of the absolute values of the individual contributions. It understates total turnover, because some entries and exits within the prime-age group and more generally as a result of in- and out-migration of residents may be offsetting. Data for Germany and the United Kingdom on the composition of growth by demographic group are based on 2005-10 change, adjusted to agree with the observed change in the labour force for the period 2000-10. The European average is the unweighted average of the European OECD countries.

Source: European countries: European Union Labour Force Surveys (Eurostat), 2010; United States: American Community Survey 2010.

The labour market impact of this unfavourable demographic environment can be best seen by comparing ageing-related exits from the working-age population with new entries coming from youth cohorts. According to the UN's population projections, there will be about 60% more people leaving the working-age population in Germany than entering it in 2020, the most unfavourable figure in the OECD (Figure 1.1).

Figure 1.1. **Estimated difference between the age-related entries and exits from the working-age population, 2020**



Note: Projections based on 2010 resident population and current migration levels. Age-related exits refer to the cohort aged 60-64, new entries to the cohort aged 15-19.

* Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

Source: OECD Secretariat calculations based on UN population projections, 2010 revision.

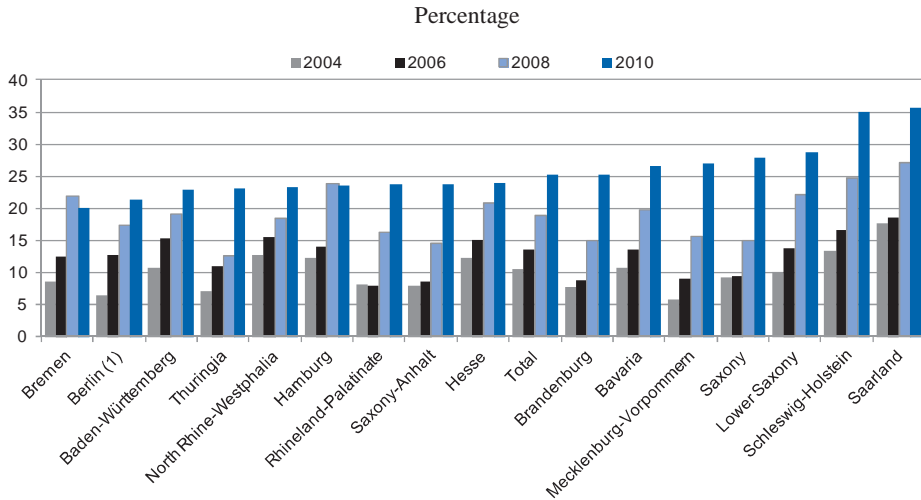
Labour shortages

The unfavourable demographic context is gradually starting to translate into growing labour shortages, especially of new recruits in firms. As can be seen in Figure 1.2, in all German States, the share of firms reporting shortages of junior staff has grown significantly over the past decade. Overall, one in four firms reported shortages of junior staff in 2010, more than twice the 2000 share.

Apprenticeships are starting to struggle to fill available places. In recent years, the number of available apprenticeships remaining vacant has grown steadily, surpassing the 100 000 level at the end of August 2012.³ The largest number of shortages for apprenticeships was in service occupations, such as merchants, sales personnel, cooks, waiters, hotel clerks and hairdressers. However, the number of vacancies per candidate – an indicator of relative shortage – was highest in smaller specialised occupations (in addition to merchants). Most states in Eastern Germany reported shortages,

suggesting that their demographic situation – which is even more unfavourable than that of the Western states – is already having an impact on the pool of potential apprentices.

Figure 1.2. Share of firms projecting problems related to staff shortages over the next two years, by state and year of survey



1. Change in coding for Berlin in 2006.

Source: IAB establishment panel, OECD Secretariat calculations.

The growing shortage of young workers is also reflected in an increasing number of job vacancies over the past five years. All indicators of shortage are on the rise. In 2011, there were 466 000 vacancies per month on average, the highest on record, up from the pre-crisis peak of 423 000 in 2007. In addition, across Germany, the average duration of a vacancy was two months, above the 2007 levels, whereas the number of unemployed workers per vacancy in 2011 was again below pre-crisis levels.⁴

At the same time, shortages are not uniform across occupations. Along with the change in the size of cohorts, some occupations have contracted while others have expanded. Of all occupations with at least 2 000 job openings over the course of 2011, occupations with the longest advertised durations were in the health sector, including both medium- and high-skilled health-related occupations. In terms of numbers, the vacancies were most pronounced for electricians and metalworking-related occupations – again both low- and high-skilled. The metalworking occupations occupied three of the first six spots in terms of numbers of vacancies, but the average duration in days was lower than in the health care occupations.

An analysis by the Federal Ministry of Labour and Social Affairs (Federal Ministry of Labour and Social Affairs, 2011) concluded that while there is no general skilled labour shortage (post-secondary or higher) in Germany, labour shortages in specific occupations occur not only in highly qualified (tertiary) occupations but also in a number of apprenticeship-level occupations. A representative survey among 15 000 employers found that 60% of reported vacancies in 2010 concerned apprenticeship-level or other non-tertiary medium-skilled occupations. The number of vacancies and shortages however is still significantly below 2006/07 levels.⁵

In a joint OECD/DIHK Employer Survey (Box 1.1), about half of firms reported staff shortages in medium-skill occupations. Smaller firms were more likely to report medium-skill shortages rather than high-skill shortages (Figure 1.3). This pattern also holds regarding the expected future evolution.

Likewise, an annual survey conducted by Manpower has consistently found that the hardest jobs to fill in Germany have not been limited to – or dominated by – highly skilled professionals but rather trades which require a medium level of qualification (Table B.1). Indeed, in 2011, skilled trades were harder to fill according to German employers than engineers, information technology experts and medical personnel and in fact, many occupations listed in the first ten in the survey did not require a tertiary or advanced post-secondary qualification.

The regional disparity in Germany reappears in vacancy and unemployment rates. In general, the states in the South of Germany face a tighter labour market than the rest of the country. For instance, the unemployed-per-vacancy rate in Baden-Württemberg and Bavaria was less than a third of the level in the Eastern German States of Berlin, Brandenburg, Sachsen-Anhalt and Mecklenburg-Vorpommern. What unites all states, however, is the type of jobs most in demand: electricians, mechanical engineers and other metal manufacturing-related occupations.

Shortages also seem to have an impact on recruitment practices. According to the establishment panel maintained by the Institute for Employment Research (IAB), firms recruited more in 2008 – the latest year for which data are available – than in 2005, and displayed a greater willingness to compromise on experience, skill level, mandated hours and wages. This was mostly done with respect to the recruitment of engineers, where more than 40% of firms declared having had to compromise in hiring in 2008 (Figure 1.4).

Box 1.1. The OECD-DIHK survey of German employers

Little solid evidence is available on the experiences and views of employers regarding the recruitment of workers from outside Germany. To shed more light on this, the OECD has conducted jointly with the German Chamber of Industry and Commerce (DIHK) a survey among German employers. It was a pilot survey; similar surveys are planned for other OECD countries. The questionnaire is included in Annex C to this report.

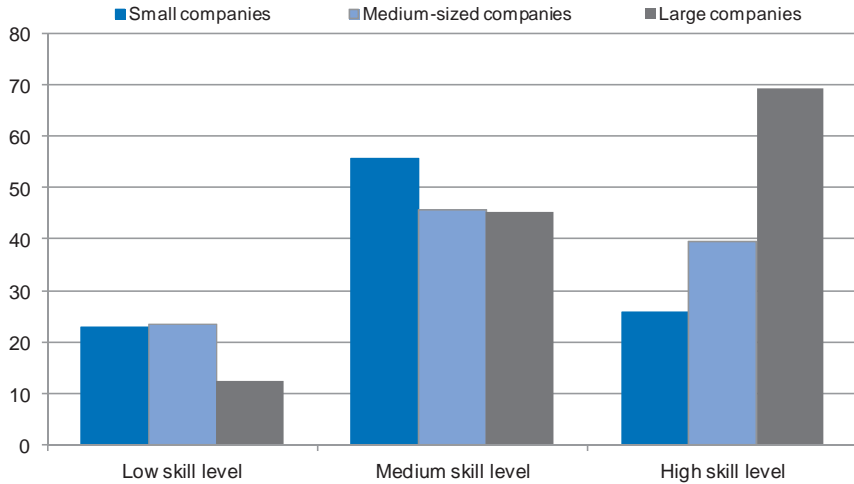
The OECD/DIHK survey was conducted online between July 15 and September 15, 2011, with 30 questions grouped into five thematic sections. The first section collected general information about the size, industry sector and location of the company. The second section inquired about the respondents' experiences with labour shortages during the year preceding the survey. The third section dealt with employers' experiences with recruitment from abroad and the fourth section was dedicated to their expectations regarding the development of shortages in the future. The fifth and final section contained several questions about employers' opinions on policy measures to facilitate labour migration to Germany.

Employers were invited to participate by the 81 local Chambers of Industry and Commerce (IHK) that are represented by the DIHK (German Chambers of Commerce and Industry) at the federal level. Membership in an IHK is compulsory for all enterprises in industry and trade that maintain a legally autonomous office in Germany. With 3.6 million members altogether, the IHKs represent all German businesses, with the exception of freelancers, agriculture and crafts. Participation was restricted to companies with ten or more employees; 1 113 responded.

Participation in the survey was voluntary and responses varied considerably across regions and by company size. Companies with a particular interest in issues related to labour needs and labour migration were likely more prone to respond. While participation was low in Northern and Eastern Germany, it was stronger in the Southern states – in particular in Baden-Württemberg, where labour needs are more pronounced. Moreover, large companies (with 500 and more employees) were overrepresented among the respondents, compared with their share among all enterprises in Germany. To limit the response bias and to adjust the distribution of enterprises in the sample, the data were weighted with respect to company size, main industry sectors and four regions (North, South, East, West).

Virtually all of the ongoing discussion in Germany relates to skilled and highly skilled labour; possible shortages in low-skilled occupations are not mentioned as critical areas of concern. Indeed, there are no forecasts of possible shortages in low-skilled occupations, because demand is expected to decline and because the existing low-educated working-age population is considered more than sufficient to meet demand. Specific low-skill occupations may face shortages, however, and indeed 20% of the companies participating in the OECD/DIHK Employer Survey report shortages of low-skilled labour, and these are also expected to remain or even increase over the next five years (Figure 1.5).

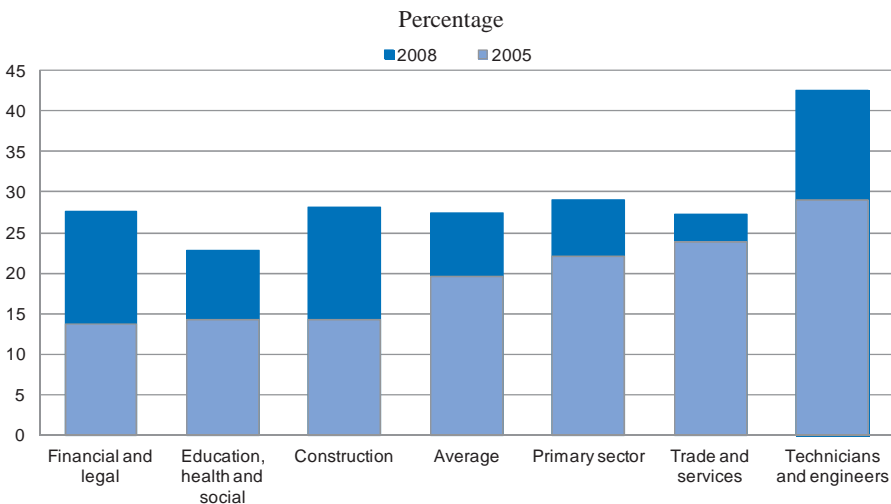
Figure 1.3. **Percentage of companies reporting shortages, by firm size and skill level, 2011**



Note: The skills levels in the survey have been defined according to the qualifications required for the job. “Low-skilled” refers to jobs requiring at most lower secondary education; “medium-skilled” to jobs requiring upper secondary and post-secondary non-tertiary education; “high-skilled” to jobs requiring tertiary education.

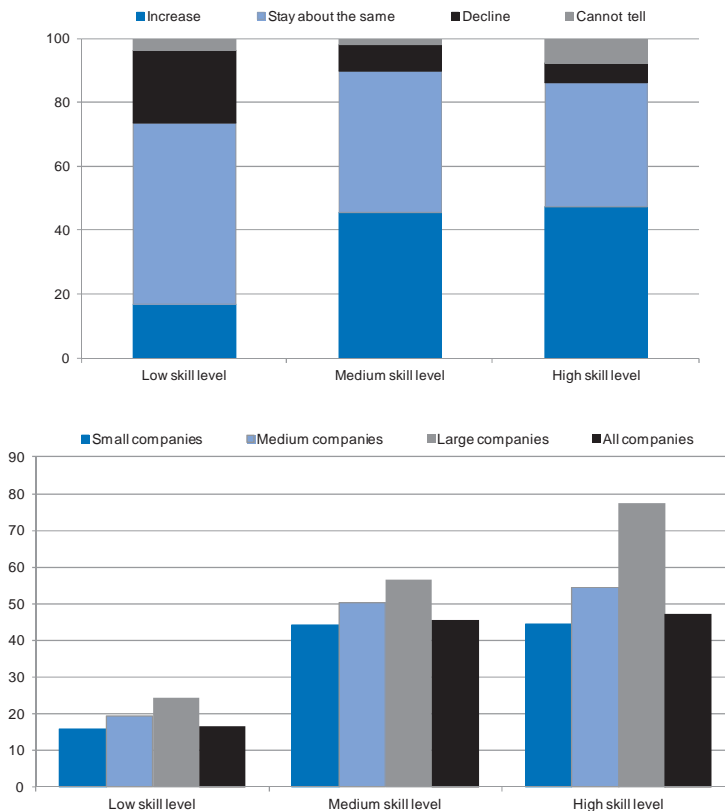
Source: OECD/DIHK Employer Survey.

Figure 1.4. **Share of firms compromising on recruitment, by sector and year**



Source: IAB establishment panel, OECD Secretariat calculations.

Figure 1.5. Percentage of employers who expect the number of vacancies to increase over the next five years, by skill level, 2011



Note: Small companies consist of 10 to 49 employees, medium-sized companies consist of 50 to 499 employees and large companies consist of 500 and more employees. For the definition of skill levels used in the survey, see Figure 1.3.

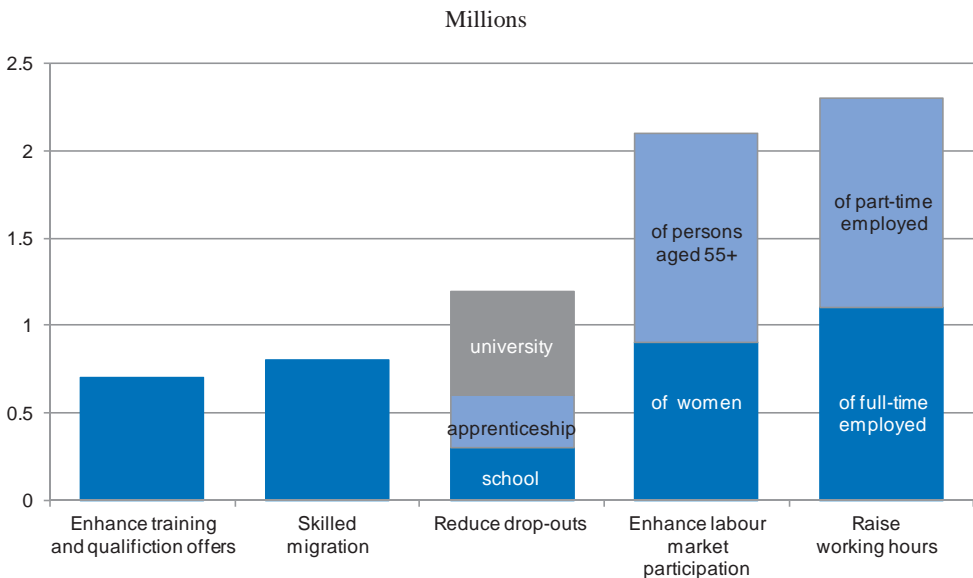
Source: OECD/DIHK Employer Survey 2011.

The expected role of labour migration in the overall strategy to meet skills shortages

Migration is one element in all strategies to deal with future labour shortages in Germany. The German Federal Employment Agency forecasts – in the absence of change – a skilled-labour shortage of about 5.4 million by 2025 (Federal Employment Agency, 2011a), with skilled workers defined as those with vocational or tertiary qualifications.⁶ Its strategy to address this focuses first on mobilising the inactive population, particularly

women and older workers (Federal Employment Agency, 2011b).⁷ Most of the required increase is thus expected to come from the domestic labour market, including recent immigrants and their offspring, by enhancing labour market participation and increasing work hours. These sources, however, are unlikely to be sufficient to meet skill shortages and some recourse to labour migration is envisaged. According to Federal Employment Agency calculations, the migration channel is targeted to bring in up to 800 000 skilled workers by 2025, more than through upskilling (Figure 1.6).

Figure 1.6. **Potential sources for additional skilled labour between 2015 and 2025, by source**



Source: OECD calculations based on data from the German Federal Employment Agency.

The Federal Employment Agency immigration forecast is based on a continuation of the long-term historic net immigration level of 200 000 people per year and the assumption that among these about 40%, or 80 000, will consist of skilled labour – that is, up to 800 000 over the decade. This is close to the contribution of new immigrants to the skilled labour force over the past decade (Annex A), when labour migration was rather low. The forecast nevertheless does take into account the need to compensate for skilled *emigration* of the native-born and of previous migrants.⁸ For immigration to provide the expected contribution to meeting skilled labour demand, a significant increase in migration for employment – both from the

enlarged EU/EFTA and from non-EU/EFTA countries – will thus be necessary.

In summary, the German labour market is starting to show shortages in different occupations. Demographic trends suggest that shortages will grow more acute and expand to more occupations. While it is difficult to quantify the exact magnitude of the shortage in the upcoming decade, activation and upskilling policies cannot alone meet expected demand, and increased recourse to foreign worker recruitment is seen as a partial solution in most scenarios.

Notes

1. For women in employment, Germany is among the OECD countries with the highest incidence of part-time work.
2. As a result, Germany is the OECD country where immigrants are, relative to the native-born, most overrepresented among the low-educated. This is, however, gradually changing, and recent migrant cohorts have been on average more highly educated as the native-born (see OECD, 2012c).
3. This number relates to vacancies reported to the Federal Employment Agency.
4. These vacancy figures need to be interpreted with a certain level of caution. Duration end is calculated by the Federal Employment Agency from the moment the vacancy is declared filled; this suggests that there may be lags between the actual date the vacancy was filled and the date it was reported as filled. The Federal Employment Agency nevertheless periodically performs audits of vacancies to ensure more precision in the data.
5. The declining number of vacancies, parallel with the decline in unemployment, suggests that labour market matching has improved, which the report links to labour market reforms.
6. This figure is obtained by multiplying the expected decline in the workforce (6.5 million) with the share of skilled labour in the current workforce (83%).
7. This review does not address the potential gains of skilled employment available by increasing the participation rate of women and older workers, upskilling the working-age population and increasing the qualification level of young graduates.
8. This skilled emigration has also been substantial; over the five years between 2002 and 2007, an estimated 139 000 tertiary-educated and 162 000 medium-qualified German-born emigrated to the EU-15/EFTA. A large part of these – 27% – went to Switzerland following the gradual introduction of free movement with the EU/EFTA member countries starting in 2002. A full discussion of the impact of emigration on the German labour market, as well as possible policy responses, is beyond the scope of this report.

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